



Arizona Utility  
Investors Association

2100 N. Central, Ste. 210  
P. O. Box 34805  
Phoenix, AZ 85067

Tel: (602) 257-9200  
Fax: (602) 254-4300

Email: info@auia.org  
Web Site: www.auia.org

ORIGINAL



0000031587

BEFORE THE ARIZONA CORPORATION COMMISSION

Jeff Hatch-Miller  
Chairman  
William A. Mundell  
Commissioner  
Marc Spitzer  
Commissioner  
Mike Gleason  
Commissioner  
Kristin Mayes  
Commissioner

AZ CORP COMMISSION  
DOCUMENT CONTROL

2005 OCT -4 P 1:37

RECEIVED

IN THE MATTER OF THE APPLICATION OF  
SOUTHWEST GAS CORPORATION FOR  
THE ESTABLISHMENT OF JUST AND  
REASONABLE RATES AND CHARGES  
DESIGNED TO REALIZE A REASONABLE  
RATE OF RETURN ON THE FAIR VALUE OF  
THE PROPERTIES OF SOUTHWEST GAS  
CORPORATION DEVOTED TO ITS  
OPERATIONS THROUGHOUT THE STATE  
OF ARIZONA.

Docket No  
G-01551A-04-0876

NOTICE OF FILING SUMMARIES

Pursuant to the Amended Procedural Order in this matter issued on March 10, 2005, the Arizona Utility Investors Association (AUIA) hereby provides notice that it has filed summaries of the direct and surrebuttal testimonies of Walter W. Meek.

Respectfully submitted, this 4th day of October, 2005.

Walter W. Meek, President

CERTIFICATE OF SERVICE

An original and 13 copies of the foregoing testimony filed this 4th day of October, 2005, with:

Docket Control  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, AZ 85007

Copies of the foregoing testimony hand delivered to all parties of record.

**ARIZONA UTILITY INVESTORS ASSOCIATION**  
**SUMMARIES OF DIRECT AND SURREBUTTAL TESTIMONY**  
**OF WALTER W. MEEK**

**DOCKET NO. G-01551A-04-0876**

**Direct Testimony**

In his direct testimony, Mr. Meek examines the company's perennial inability to earn a reasonable rate of return, reflected in the fact that Southwest Gas (SWG) has not earned its authorized rate of return in 10 of the past 11 years and that its return on common equity sank to 3.56 % in the test year. This chronic condition has denied shareholders earned equity in the company and created a highly leveraged capital structure, resulting in substandard credit ratings and untold millions in inflated interest costs that are passed on to ratepayers.

Mr. Meek believes that a major cause of SWG's failure to earn its authorized rate of return is its continued dependence in its rate structure on volume sales of gas to recover its fixed costs while per capita gas consumption has declined precipitously over the past 20 years, nearly 38 % since 1986. As a cure for this condition, Mr. Meek supports the company's proposal to install a device to decouple SWG's margin recovery from gas consumption. In effect, the proposed conservation margin tracker (CMT) would allow SWG to true up its actual sales against the normalized consumption upon which its rates are based and to collect or refund the difference. Such a mechanism is operating in three other states and NARUC has recommended consideration of such mechanisms.

Mr. Meek also supports a significant increase in the company's fixed monthly service charge, either in conjunction with the CMT or as an alternative. Currently, the fixed monthly charge of \$8.00 recovers only 38 % of the company's fixed costs and 62% of the recovery is left to the commodity charge, which is subject to erosion by weather, conservation and increased efficiencies in appliances and housing construction. The Commission should be moving consistently toward cost-based rates and that is what an increase in the monthly fixed charge represents.

Mr. Meek also supports, generally, the company's proposals to employ a hypothetical capital structure and for a rate of return on equity that reflects returns that are actually being achieved in the market by gas distribution companies that demonstrate less risk than Southwest Gas.

**Surrebuttal Testimony**

In his surrebuttal testimony, Mr. Meek takes issue with Staff and RUCO witnesses who reject the concept of the CMT without any evidentiary basis other than by calling it "extreme," "radical" and "unprecedented," all of which are demonstrably false.

While Staff and RUCO argue that the CMT would require customers to pay for gas they don't use, Mr. Meek points out that the purpose of an appropriate rate design is to allow the company to recover its costs and the current rate structure penalizes shareholders for gas that isn't consumed. Although Staff and RUCO assert that it is unfair to focus the CMT on residential customers, Mr. Meek responds

that the problem of declining consumption is attributable mainly to the residential class and neither Staff nor RUCO has offered an alternative that would include general service customers.

Mr. Meek also asserts that the increases in the monthly fixed charge proposed by Staff and RUCO, while helpful, fall woefully short of what is required to enable full cost recovery, especially without the CMT. Mr. Meek points out that the Staff and RUCO proposals would increase the proportion of fixed cost recovery in residential rates to only 39% and 41% respectively.

Mr. Meek criticizes RUCO's flat rate proposal on grounds that it would increase the risk to SWG on commodity sales. He also challenges Staff witness Stephen Hill's assertion that his recommended rate of return (8.40%) will assure an investment grade credit rating for SWG and his argument that SWG should be required to improve its common equity ratio to 40%. Mr. Meek points out that SWG's credit rating and its ability to improve its equity ratio are dependent on recovering its fixed costs and accumulating retained earnings, neither of which is feasible under the rate designs advocated by Staff and RUCO.